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SIPDIS

NFATC FOR LISA FOX  
NFATC FOR BARRY BLENNER

SENSITIVE

SIPDIS

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SUBJECT: HYOGO PREFECTURE NUMBER ONE IN ATTRACTING NEW  
BUSINESSES IN JAPAN

¶1. (SBU) In the fierce competition over business promotion subsidies among Japanese prefectures, the gap between successful and unsuccessful prefectures is growing in western Japan's six prefecture Kansai district. Hyogo Prefecture got 57 new business cases, which is the largest number in the first half of 2006 in Japan, and almost half of the region's total 125 cases. Osaka had 19 cases, and Kyoto had 12 cases in the same period. Osaka Prefecture lost its most hopeful candidate, a new research institute for Osaka-headquartered Takeda Pharmaceutical Company. Despite the USD 170 million (20 billion yen) subsidy offered by Osaka (more than double the amount offered by Kanagawa Prefecture), Takeda decided to locate in Fujisawa City in Kanagawa. Although Wakayama Prefecture also introduced a new incentive, a maximum USD 86 million subsidy available for new businesses, it attracted only 4 new businesses in the first half of 2006. Wakayama's poor infrastructure and weak distribution links offer at least a partial explanation for such dismal results.

¶2. (U) The subsidy race in the Kansai heated up after Osaka-based Sharp Corp. set up a new LCD plant in Kameyama City, Mie Prefecture in 2002. Former Mie Governor Masayasu Kitagawa is said to have been successful in drawing the firm out of Osaka by offering the equivalent of a USD 77 million subsidy.

¶3. (SBU) In economics as in war, it looks like a case of planners preparing to fight the last war. 40 percent of new businesses in Hyogo only used a small fraction of the subsidies offered, in order to offset rental fees, turning down the much larger portion of subsidies aimed at covering land purchases. A manager of the Kansai branch of the Development Bank of Japan said that the speed of service, ability to meet customer needs, and availability of capable local employees are often more important to attract new businesses. Large grants or tax breaks aren't deal-clinchers any more.

¶4. (SBU) Undeterred, Osaka Prefecture and Sakai City

have started cooperation to attract Sharp's new solar battery plant to a former Nippon Steel plant site in Sakai with a total of USD 86 million in combined subsidies. According to one of Osaka Prefecture's senior industrial researchers, Takumi Hirai, Japan produces half of the world's solar batteries, and Sharp itself has a 30% global share. Hirai is bearish about the growth opportunities of the solar battery industry, so he thinks the prefecture is wise to try to invest in this renewable resource technology. The cost savings in infrastructure presented by the old plant may turn the tide toward Osaka this time. Osaka was unable to keep local giant Matsushita Electric from locating its first new plant built within Japan in 40 years within Osaka's borders (the plant went to Amagasaki in Hyogo). Given the looming public sector debt problem, governors who do not bring home juicy investment deals to their prefectures are certain to face the wrath of voters and business leaders.

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